



Richmond Local Municipality  
(Registration number KZN 227)  
Draft annual financial statements  
for the year ended 30 June 2018

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## General Information

---

### The councilors listed below were as at 30 June 2018

Executive Mayor	Cllr. S.J. Mchunu
Deputy Mayor	Cllr. K.E. Mkhize (01/09/2017 to 30/06/2018)
Speaker	Cllr. S.B. Ndlovu
Member of the Executive Committee	Cllr. S.J. Mchunu
Member of the Executive Committee	Cllr. K.E. Mkhize
Member of the Executive Committee	Cllr. T.C. Madonda
Councilor	N.P. Phoswa
Councilor	B. Mbanjwa
Councilor	V. Maphumulo
Councilor	B.R. Shange
Councilor	B. Ngcongo
Councilor	M.J. Jili
Councilor	S.L. Shange
Councilor	T.C. Madonda
Councilor	S. Ngubo
Councilor	S.J. Mchunu
Councilor	N.W. Mjwara
Councilor	S.B. Ndlovu
Councilor	K.E. Mkhize
Councilor	S. Ngcobo

<b>Chief Finance Officer (CFO)</b>	S. Mewalall 033 212 2155 cfo@richmond.gov.za
------------------------------------	--

<b>Municipal Manager</b>	A.B. Mnikathi 033 212 2155 mm@richmond.gov.za
--------------------------	---

<b>Grading of local authority</b>	Category 3
-----------------------------------	------------

<b>Registered office</b>	57 Shepstone Street Richmond 3780
--------------------------	---

<b>Postal address</b>	Private Bag 1028 Richmond 3780
-----------------------	--------------------------------------

<b>Primary bankers</b>	First National Bank
------------------------	---------------------

<b>Auditors</b>	Auditor General of South Africa (AGSA)
-----------------	--

<b>Internal Auditors</b>	Umnotho Business Consulting
--------------------------	-----------------------------

<b>Telephone number</b>	033 212 2155
-------------------------	--------------

<b>Fax number</b>	033 212 4183
-------------------	--------------

<b>Email address</b>	mm@richmond.gov.za
----------------------	--------------------

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Index

---

The reports and statements set out below comprise the draft annual financial statements presented to the provincial legislature:

	<b>Page</b>
Foreword	3
Accounting Officer's report	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 33
Notes to the Draft Annual Financial Statements	34 - 81

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Richmond Local Municipality**

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## **Foreword**

---

During the 2017/18 financial year the municipality had to ensure that issues of compliance with various changes in legislation are addressed in order to meet the challenges set by a changing legislative environment.

The municipality, as part of improving service delivery to the community, implemented proper communication channels through the ward committee systems. Community Development Workers ensured that our people receive treatment that is in compliance with the Batho Pele principles. Service delivery and the payment for services still remain a serious concern to all in local government. All role-players must ensure that they work together to overcome the legacy of the past and ensure that we uplift the living conditions of those that were previously forgotten. Further to ensure that compliance with Batho Pele principles is adhered to at all times, we call upon our Councillors, Community Development Workers and Ward Committees to discharge their responsibilities in the spirit of co-operative governance.

Although capital infrastructure projects were limited to those financed from external grant funding, the municipality has successfully finalised some of the projects identified in the Integrated Development Plan.

The municipality will in the 2018/19 financial year again embark upon projects identified in the Integrated Development Plan and speed up completion of 2017/18 projects.

I hereby wish to thank the members of the Executive Committee, Council and all staff for their commitment during the 2017/18 year and hope that the 2018/19 targets set in the Integrated Development Plan will be met.

I thank you.

---

**CLLR. S J MCHUNU**  
**HONOURABLE MAYOR**  
**31 August 2018**

## **Richmond Local Municipality**

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

### **Accounting Officer's report**

---

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 2 - 81, in terms of Section 126(1) of the Municipal Finance Management Act No. 56 of 2003 and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 29 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution of South Africa Act No.108 of 1996, save for disclosure in said note read with the Remuneration of Public Officer Bearers Act No. 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

---

**Accounting Officer**  
**A.B. Mnikathi**

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	995	37,267
Receivables from exchange transactions	4	1,359,655	583,291
Receivables from non-exchange transactions	5	18,299,664	45,150,923
VAT receivable	6	5,383,565	2,578,229
Cash and cash equivalents	7	34,341,892	32,099,387
		<b>59,385,771</b>	<b>80,449,097</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	325,366,712	323,351,621
Heritage assets	9	212,767	212,767
Intangible assets	10	1,077,733	1,635,457
Investment property	11	7,820,000	7,820,000
Non-current Investments	12	266	266
		<b>334,477,478</b>	<b>333,020,111</b>
<b>Total Assets</b>		<b>393,863,249</b>	<b>413,469,208</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	14	11,180,275	14,719,554
Payables from non-exchange transactions	15	2,650,891	1,075,191
Unspent conditional grants and receipts	16	4,288,730	5,376,905
Operating lease liabilities	17	434,625	401,432
Current portion of long term liabilities	18	-	34,669
Current portion of employee benefit obligation	19	397,720	176,997
		<b>18,952,241</b>	<b>21,784,748</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	19	10,788,346	11,189,979
Non-current provisions	13	6,196,053	5,746,769
		<b>16,984,399</b>	<b>16,936,748</b>
<b>Total Liabilities</b>		<b>35,936,640</b>	<b>38,721,496</b>
<b>Net Assets</b>		<b>357,926,609</b>	<b>374,747,712</b>
Accumulated surplus		357,926,609	374,747,712

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Rental of facilities and equipment	20	3,200,546	3,297,160
Interest earned - External investments	21	2,904,970	3,900,882
Interest earned - Outstanding debtors	21	142,890	94,603
Service charges	22	999,869	487,504
Operational revenue	23	442,409	635,601
<b>Total revenue from exchange transactions</b>		<b>7,690,684</b>	<b>8,415,750</b>
<b>Revenue from non-exchange transactions</b>			
Property rates	24	14,007,456	11,328,074
Property rates - penalties imposed and collection charges	21	2,407,306	1,452,230
Licences and permits	25	715,949	725,461
Government grants and subsidies received	26	98,155,114	106,421,217
Fines	27	271,892	252,677
<b>Total revenue from non-exchange transactions</b>		<b>115,557,717</b>	<b>120,179,659</b>
<b>Total revenue</b>		<b>123,248,401</b>	<b>128,595,409</b>
<b>Expenditure</b>			
Employee related costs	28	(39,873,951)	(36,658,673)
Remuneration of councillors	29	(5,043,334)	(4,313,323)
Depreciation and amortisation	30	(18,216,278)	(17,382,919)
Impairment losses	31	(34,578,226)	(7,110,951)
Finance costs	32	(182,242)	(325,496)
Lease rentals on operating lease		(674,397)	(479,338)
Collection costs	33	(37,146)	(116,096)
Contracted services	34	(25,632,382)	(9,105,311)
Grants and Subsidies paid	35	(1,524,423)	(2,914,928)
Operational costs	36	(14,307,123)	(28,144,810)
<b>Total expenditure</b>		<b>(140,069,502)</b>	<b>(106,551,845)</b>
<b>(Deficit) surplus for the year</b>		<b>(16,821,101)</b>	<b>22,043,564</b>

## Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 1 July 2016</b>	<b>352,704,148</b>	<b>352,704,148</b>
Changes in net assets		
Surplus for the year	22,043,564	22,043,564
Total changes	22,043,564	22,043,564
<b>Balance at 1 July 2017</b>	<b>374,747,710</b>	<b>374,747,710</b>
Changes in net assets		
Surplus for the year	(16,821,101)	(16,821,101)
Total changes	(16,821,101)	(16,821,101)
<b>Balance at 30 June 2018</b>	<b>357,926,609</b>	<b>357,926,609</b>



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
<b>Cash flows from operating activities</b>			
<b>Payments</b>			
Finance costs		(182,242)	(325,496)
<b>Undefined difference compared to the cash generated from operations note</b>		<b>25,043,385</b>	<b>24,843,490</b>
<b>Net cash flows from operating activities</b>	37	<b>24,861,143</b>	<b>24,517,994</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(22,584,368)	(38,355,390)
Purchase of other intangible assets	10	-	(1,647,420)
Purchases of heritage assets	9	-	(151,887)
<b>Net cash flows from investing activities</b>		<b>(22,584,368)</b>	<b>(40,154,697)</b>
<b>Cash flows from financing activities</b>			
Movement in other liability 2		(34,669)	(77,464)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,242,106</b>	<b>(15,714,167)</b>
Cash and cash equivalents at the beginning of the year		32,099,387	47,736,089
<b>Cash and cash equivalents at the end of the year</b>	7	<b>34,341,493</b>	<b>32,021,922</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Rental of facilities and equipment	656,000	2,690,000	<b>3,346,000</b>	3,200,546	<b>(145,454)</b>	(1)
Interest received (external investments)	3,070,000	10,000	<b>3,080,000</b>	2,904,970	<b>(175,030)</b>	
Interest earned (debtors)	40,000	30,000	<b>70,000</b>	142,890	<b>72,890</b>	(2)
Service charges	1,070,000	-	<b>1,070,000</b>	999,869	<b>(70,131)</b>	
Operational revenue	272,000	165,000	<b>437,000</b>	442,409	<b>5,409</b>	
<b>Total revenue from exchange transactions</b>	<b>5,108,000</b>	<b>2,895,000</b>	<b>8,003,000</b>	<b>7,690,684</b>	<b>(312,316)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	15,040,008	-	<b>15,040,008</b>	14,007,456	<b>(1,032,552)</b>	
Property rates - penalties imposed	850,000	-	<b>850,000</b>	2,407,306	<b>1,557,306</b>	(3)
Licences and Permits	1,082,000	(185,000)	<b>897,000</b>	715,949	<b>(181,051)</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	84,025,000	15,960,000	<b>99,985,000</b>	98,155,114	<b>(1,829,886)</b>	
Fines	405,000	-	<b>405,000</b>	271,892	<b>(133,108)</b>	(4)
<b>Total revenue from non-exchange transactions</b>	<b>101,402,008</b>	<b>15,775,000</b>	<b>117,177,008</b>	<b>115,557,717</b>	<b>(1,619,291)</b>	
<b>Total revenue</b>	<b>106,510,008</b>	<b>18,670,000</b>	<b>125,180,008</b>	<b>123,248,401</b>	<b>(1,931,607)</b>	
<b>Expenditure</b>						
Personnel	(45,898,000)	1,677,000	<b>(44,221,000)</b>	(39,873,951)	<b>4,347,049</b>	(5)
Remuneration of councillors	(5,106,000)	(388,000)	<b>(5,494,000)</b>	(5,043,334)	<b>450,666</b>	
Depreciation and amortisation	-	-	<b>-</b>	(18,216,278)	<b>(18,216,278)</b>	
Impairment loss	(1,050,000)	(1,267,000)	<b>(2,317,000)</b>	(34,578,226)	<b>(32,261,226)</b>	(6)
Finance costs	(18,000)	-	<b>(18,000)</b>	(182,242)	<b>(164,242)</b>	(7)
Lease rentals on operating lease	-	-	<b>-</b>	(674,397)	<b>(674,397)</b>	
Collection costs	-	-	<b>-</b>	(37,146)	<b>(37,146)</b>	
Contracted Services	(24,275,000)	(7,836,000)	<b>(32,111,000)</b>	(25,632,382)	<b>6,478,618</b>	(8)
Transfers and Subsidies	(1,443,000)	543,000	<b>(900,000)</b>	(1,524,423)	<b>(624,423)</b>	(9)
General Expenses	(13,989,000)	(2,642,000)	<b>(16,631,000)</b>	(14,307,123)	<b>2,323,877</b>	(10)
<b>Total expenditure</b>	<b>(91,779,000)</b>	<b>(9,913,000)</b>	<b>(101,692,000)</b>	<b>(140,069,502)</b>	<b>(38,377,502)</b>	
<b>Deficit before taxation</b>	<b>14,731,008</b>	<b>8,757,000</b>	<b>23,488,008</b>	<b>(16,821,101)</b>	<b>(40,309,109)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>14,731,008</b>	<b>8,757,000</b>	<b>23,488,008</b>	<b>(16,821,101)</b>	<b>(40,309,109)</b>	
<b>Reconciliation</b>						

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

### Reasons for differences between budget and actual:

- (1) Largely in line with budget
- (2) During the financial year, the Municipality absorbed an additional region to provide services to. In addition to that, property rates increased due the the increase in the values of the properties
- (3) During the financial year, the Municipality absorbed an additional region to provide services to. In addition to that, property rates increased due the the increase in the values of the properties
- (4) Large reduction in the traffic fines
- (5) Staff compliment not complete
- (6) Unexpected impairment of debtor
- (7) Includes the landfill site interest.
- (8) Expenditure not all fulfilled
- (9) More subsidies could be made
- (10) In line with budget

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Basis of preparation

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

#### 1.1 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2018 and 30 June 2017 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

#### 1.2 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

##### 1.2.1 Revenue Recognition

Accounting Policy 11.2 on Revenue from Exchange Transactions and Accounting Policy 11.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (Revenue from Exchange Transactions) and GRAP 23 (Revenue from Non-exchange Transactions). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 9.1 on Financial Assets Classification and Accounting Policy 9.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (Financial Instruments).

### 1.2.3 Impairment of Financial Assets

Accounting Policy 9.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (Financial Instruments) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

### 1.2.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 5.2 and 6.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The assessment and considerations of useful lives are set out in Accounting Policy 8, Estimation of Useful Lives.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

### 1.2.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 7 on Impairment of Assets, Accounting Policy 5.2 on Intangible Assets - Subsequent Measurement, Amortisation and Impairment and Accounting Policy 10. on Inventory - Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Property, Plant and Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventory are disclosed in Notes 2, 7, 8, 9 and 10 to the Annual Financial Statements, if applicable.

### 1.2.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 13.2, Employee Benefits - Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

### 1.2.7 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

### 1.2.8 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

differences are explained in the relevant Notes to the Annual Financial Statements.

### 1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

### 1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a Going Concern Basis. Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting
- GRAP 20 Related Party Disclosures
- GRAP 32 Service Concession Arrangement Granto
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents
- IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## 3. PROPERTY, PLANT AND EQUIPMENT

### 3.1 Initial Recognition

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

separate items (major components) of Property, Plant and Equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as Property, Plant and Equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of Property, Plant and Equipment, they are accounted for as Property, Plant and Equipment.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

### 3.2 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

### 3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the Straight-line Method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

<b>Asset Class</b>	<b>Years</b>
<b>Buildings</b>	
Improvements	10 - 30
<b>Infrastructure</b>	
Electricity	5 - 30
Roads and Paving	10 - 80
Sanitation	7 - 55
Water	50
<b>Community</b>	
Community Facilities	15 - 30
Recreational Facilities	15 - 30
<b>Other</b>	
Bins and Containers	5 - 15
Computer Equipment	5 - 10
Emergency Equipment	5 - 10
Furniture and Fittings	5 - 15

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

Motor Vehicles	7 - 15
Office Equipment	5 - 15
Plant and Equipment	5 - 15
Specialist Vehicles	10 - 20
Other Assets	25 - 30

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

### 3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

### 3.5 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

### 3.6 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

### 3.7 Leased Assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

### 3.8 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

## 4. HERITAGE ASSETS

A Heritage Asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

### 4.1 Initial Recognition

The cost of an item of Heritage Assets is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage Assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Heritage Assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of Heritage Assets acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

### 4.2 Subsequent Measurement

Subsequent expenditure relating to Heritage Assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

### 4.3 Derecognition

The carrying amount of an item of Heritage Assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Heritage Assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of Heritage Assets.

## 5. INTANGIBLE ASSETS

### 5.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an Intangible Asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated Intangible Assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

### 5.2 Subsequent Measurement, Amortisation and Impairment

---

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a Straight-line Basis over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

Amortisation only commences when the asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

Asset Class	Years
Computer software	5

The assets' residual values, estimated useful lives and amortisation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

### 5.3 Derecognition

Intangible Assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an Intangible Asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

## 6. INVESTMENT PROPERTY

### 6.1 Initial Recognition

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non-exchange transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- (b) Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- (d) A property owned by the municipality and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

## **Richmond Local Municipality**

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

### **Accounting Policies**

---

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-current Assets Held-for-Sale, as appropriate:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- (b) Property being constructed or developed on behalf of third parties;
- (c) Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- (d) Property that is leased to another entity under a finance lease;
- (e) Property held to provide goods and services and also generates cash inflows; and
- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 6.2 Subsequent Measurement

Investment Property is measured using the Cost Model and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the Straight-line Method over the useful life of the property, which is estimated at 10 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 6.3 Derecognition

An Investment Property shall be derecognised (eliminated from the Statement of Financial Position) on disposal or when the Investment Property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

## 7. IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as Cash Generating Assets. All other assets are classified as Non-cash Generating Assets.

### 7.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

### 7.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

### 8. ESTIMATION OF USEFUL LIVES

The municipality depreciates its assets over their estimated useful lives.

The useful life of an asset is defined as:

- The period over which an asset is expected to be available for use by an municipality; or
- The number of production or similar units expected to be obtained from the asset by the municipality.

The municipality assesses at each reporting date whether there is any indication that the useful life of an asset has changed. If any such indication exists, the useful life is changed.

Any change in the useful life is accounted for as Change in Estimate in accordance with GRAP 3 (Accounting Policies, Change in Accounting Estimates and Errors).

Annually the municipality considers whether there is any indication that the initial useful lives of assets need to be revised. The municipality considers the following during the assessment of its assets' useful lives. Whether:

- (a) The composition of the asset has changed.
- (b) The use of the asset has changed because of the following:
  - (i) The municipality has changed the manner in which the asset is used;
  - (ii) The municipality has changed the utilisation rate of the asset;
  - (iii) The municipality has made the decision to dispose of the asset during a future reporting period which results in a change in the useful life of the asset;
  - (iv) Technological, environmental or commercial changes occurred during the reporting period that will change the use of the asset; and
  - (v) The asset was idle or retired during the current reporting period.
- (c) The asset is approaching its previously expected useful life.
- (d) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (e) The asset is assessed as being impaired in accordance with the Accounting Policy 7.1 and 7.2 on Impairment of Assets.

A decrease in the estimated useful life of an asset is accounted for as an impairment in the Statement of Financial

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

Performance.

The impairment of an asset is accounted for in accordance with Accounting policy 7.1 and 7.2 on Impairment of Assets.

The estimation of the useful lives of the municipality's assets is a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

### 9. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as Financial Assets, Financial Liabilities or Residual Interests in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

#### Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

#### Amortised Cost

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

#### 9.1 Financial Assets - Classification

A Financial Asset is any asset that is a cash, a contractual right to receive cash or another financial asset from another entity. In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the Effective Interest Rate Method less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
  - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- **Financial Assets measured at Cost** are investments in residual Interest that do not have a quoted market price in an active

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

market and whose fair value cannot be reliably measured.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial asset	Classification in terms of GRAP 104
Non-current Investments	Financial Assets at Amortised Cost
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents - Call Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents - Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents - Cash	Financial Assets at Fair Value
Current Portion of Non-current Investments	Financial Assets at Amortised Cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

### 9.2 Financial Liabilities - Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Liability	Classification in terms of GRAP 104
Long-term Liabilities	Financial Liabilities at Amortised Cost
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

### 9.3 Initial and Subsequent Measurement

#### 9.3.1 Financial Assets:

##### Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an Effective Yield Basis.

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial Assets at Amortised Cost.

##### Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

#### 9.3.2 Financial Liabilities:

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### **Financial Liabilities measured at Fair Value**

Financial Liabilities at Fair Value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

### **Financial Liabilities held at Amortised Cost**

Any other Financial Liabilities are classified as Other Financial Liabilities (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the Effective Interest Rate Method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

### **9.4 Impairment of Financial Assets**

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

#### **9.4.1 Financial Assets at Amortised Cost**

Accounts Receivable encompass Long-term Debtors, Receivables from Exchange Transactions (Consumer Debtors) and Receivables from Non-exchange Transactions (Other Debtors).

Initially Accounts Receivable are valued at fair value plus transaction costs, and subsequently carried at amortised cost using the Effective Interest Rate Method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

#### **9.4.2 Financial Assets at Cost**

If there is objective evidence that an impairment loss has been incurred on an investment in a Residual Interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the Financial Asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

### **9.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

### 9.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

## 10. INVENTORIES

### 10.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

### 10.2 Subsequent Measurement

#### 10.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and current replacement cost (the cost the municipality would incur to acquire the asset on the reporting date). The cost is determined using the weighted average cost of commodities.

Inventories distributed through a non-exchange transaction and those consumed in the production process of goods to be distributed at no or nominal cost are subsequently measured at the lower of cost and current replacement cost.

#### 10.2.2 Other Inventories

Redundant and slow-moving Inventories identified are written down from cost to current replacement cost, if applicable.

Inventories identified to be sold by public auction are written down from cost to net realisable value with regard to their estimated economic or realisable values. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Differences arising on the measurement of such Inventory at the lower of cost and current replacement cost or net realisable value, are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in current replacement cost or net realisable value is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the Inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

## 11. REVENUE RECOGNITION

### 11.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered /goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

### 11.2 Revenue from Exchange Transactions

#### 11.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the number of refuse collections on each property during the week.

#### 11.2.2 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

#### 11.2.3 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the Time-proportionate Basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on unutilised Conditional Grants is allocated directly to the Creditor: Unutilised Conditional Grants, if the grant conditions indicate that interest is payable to the funder.

#### 11.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### 11.2.5 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

#### 11.2.6 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 11.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

#### 11.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### 11.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable, considering the allowance in terms of IGRAP 1 to use estimates to determine the amount of revenue that the municipality is entitled to collect.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

#### 11.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

# **Richmond Local Municipality**

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

---

### **11.3.4 Government Grants and Receipts**

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 11.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

### 12. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

#### 12.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

### 13. EMPLOYEE BENEFIT LIABILITIES

#### 13.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for nonaccumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### 13.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 13.2.1 Defined Contribution Plans

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 13.2.2 Defined Benefit Plans

A Defined Benefit Plan is a post-employment benefit plan other than a defined contribution plan.

#### Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

#### Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

#### Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

#### Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

### 14. LEASES

#### 14.1 Classification

Leases are classified as Finance Leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as Operating Leases.

#### 14.2 The Municipality as Lessee

##### 14.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the Effective Interest Rate Method. Finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the Effective Interest Rate Method. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

##### 14.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a Straight-line Basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a Straight-line Basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### 14.3 The Municipality as Lessor

Amounts due from lessees under Finance Leases or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from Operating Leases is recognised on a Straight-line Basis over the term of the relevant lease.

#### 14.4 Determining whether an Arrangement contains a Lease

At inception of an arrangement, the municipality determines whether such an arrangement is, or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the municipality the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the municipality separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

payments are made and an imputed finance charge on the liability is recognised using the municipality's incremental borrowing rate.

### 15. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance in accordance with the requirements of GRAP 5.

To the extent that the municipality borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

All borrowing costs are treated as an expense in the period in which they are incurred.

### 16. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

### 17. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

### 18. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 19. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

### 22. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

### 23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

### 24. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

### 25. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive

# **Richmond Local Municipality**

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

---

Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### **26. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

### **27. COMPARATIVE INFORMATION**

#### **27.1 Current Year Comparatives**

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

#### **27.2 Prior Year Comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

#### **27.3 Budget Information**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2017 to 30 June 2018.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 2. General Information

Richmond Local Municipality (the municipality) is a local government institution in Richmond, Kwa-Zulu Natal Province, and is one of six local municipalities under the jurisdiction of the uMgungundlovu District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

### 3. Inventories

Consumables	995	37,267
<b>Total inventories</b>	<b>995</b>	<b>37,267</b>

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

The cost of Inventories recognised as an expense during the period was R36 272 (2017: R98 162).

No Inventories have been pledged as collateral for Liabilities of the municipality.

### 4. Receivables from exchange transactions

#### Gross balances

Refuse	1,218,587	448,484
Other receivables	1,036,684	693,980
	<b>2,255,271</b>	<b>1,142,464</b>

#### Less: Provision for impairment

Refuse	(672,362)	(253,400)
Other receivables	(223,254)	(305,773)
	<b>(895,616)</b>	<b>(559,173)</b>

#### Net balance

Refuse	546,225	195,084
Other receivables	813,430	388,207
	<b>1,359,655</b>	<b>583,291</b>

Other Receivables include outstanding debtors for various other services, e.g. Deposits, Interest, Rentals and Sundry Services like Dumping Fees, Impounding Fees, etc.

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The municipality receives applications that it processes. There are no consumers who represent more than 5% of the total balance of Receivables.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 4. Receivables from exchange transactions (continued)

#### 4.1 Ageing of receivables from exchange transactions

As at 30 June 2018	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>Refuse:</b>					
Gross Balances	196,936	72,384	73,528	875,739	1,218,587
Less: Provision for impairment	-	-	-	(672,362)	(672,362)
<b>Net balances</b>	<b>196,936</b>	<b>72,384</b>	<b>73,528</b>	<b>203,377</b>	<b>546,225</b>

<b>Other Receivables</b>					
Gross Balances	510,708	2,849	44,526	478,601	1,036,684
Less: Provision for impairment	-	-	-	(223,254)	(223,254)
<b>Net balances</b>	<b>510,708</b>	<b>2,849</b>	<b>44,526</b>	<b>255,347</b>	<b>813,430</b>

	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>All Receivables</b>					
Gross Balances	707,644	75,233	118,054	1,354,340	2,255,271
Less: Provision for impairment	-	-	-	(895,616)	(895,616)
<b>Net balances</b>	<b>707,644</b>	<b>75,233</b>	<b>118,054</b>	<b>458,724</b>	<b>1,359,655</b>

As at 30 June Receivables of R652 008 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>All Receivables</b>					
Gross Balances	-	75,233	118,054	458,721	652,008

As at 30 June 2017	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>Refuse:</b>					
Gross Balances	15,533	24,802	20,138	388,012	448,485
Less: Provision for impairment	-	-	-	(253,400)	(253,400)
<b>Net balances</b>	<b>15,533</b>	<b>24,802</b>	<b>20,138</b>	<b>134,612</b>	<b>195,085</b>

<b>Other Receivables</b>					
Gross Balances	(225,981)	55,747	27,687	836,528	693,981
Less: Provision for impairment	-	-	-	(305,773)	(305,773)
<b>Net balances</b>	<b>(225,981)</b>	<b>55,747</b>	<b>27,687</b>	<b>530,755</b>	<b>388,208</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 4. Receivables from exchange transactions (continued)

#### 4.2 Summary of receivables from exchange transactions by customer classification

As at 30 June 2018

	Household	Industrial / Commercial	National and Provincial Government	Other
	R	R	R	R
<i>Current:</i>				
0 - 30 Days	415,032	43,828	229,015	19,769
<i>Past Due:</i>				
31 - 60 Days	64,798	8,978	1,153	306
61 - 90 Days	101,809	8,637	1,136	6,472
+90 Days	815,960	140,215	39,455	358,708
Subtotal	1,397,599	201,658	270,759	385,255
Less: Provision for Impairment	(705,357)	(123,685)	-	(66,574)
<b>Total Trade Receivables by Customer Classification</b>	<b>692,242</b>	<b>77,973</b>	<b>270,759</b>	<b>318,681</b>

As at 30 June 2017

	Household	Industrial / Commercial	National and Provincial Government	Other
	R	R	R	R
<i>Current:</i>				
0 - 30 Days	14,758	16,720	(231,327)	(10,598)
<i>Past Due:</i>				
31 - 60 Days	55,500	10,102	12,680	2,267
61 - 90 Days	28,719	4,259	12,680	2,166
+90 Days	656,384	108,218	331,421	128,516
Subtotal	755,361	139,299	125,454	122,351
Less: Provision for Impairment	(471,601)	(85,271)	-	(2,301)
<b>Total Trade Receivables by Customer Classification</b>	<b>283,760</b>	<b>54,028</b>	<b>125,454</b>	<b>120,050</b>

#### 4.3 Reconciliation of the provision for impairment

Balance at beginning of year	559,173	443,185
Impairment Losses recognised	418,962	115,988
Impairment Losses reversed	(82,519)	-
Amounts written off as uncollectable	-	-
<b>Balance at end of year</b>	<b>895,616</b>	<b>559,173</b>

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.

#### 4.4 Ageing of impaired receivables from exchange transactions

<i>Current:</i>		
0 - 30 Days	-	-
<i>Past Due:</i>		
31 - 60 Days	-	-
61 - 90 Days	-	-
+90 Days	895,616	559,173
<b>Total</b>	<b>895,616</b>	<b>559,173</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 4. Receivables from exchange transactions (continued)

#### 4.5 Derecognition of financial assets

No Financial Assets have been transferred to other parties during the year.

### 5. Receivables from non-exchange transactions

#### Gross Balances

Assesment rates debtors	22,108,688	13,163,200
Payments made in advance	3,804	3,458
Accruals	148,602	414,688
Sundry debtors	37,568,652	38,857,876
Suspense accounts	2,112	2,112
	<b>59,831,858</b>	<b>52,441,334</b>

#### Less: Provision for impairment

Assesment rates debtors	(10,054,454)	(7,065,705)
Payments made in advance	-	-
Accruals	-	-
Sundry debtors	(31,477,740)	(224,706)
Suspense accounts	-	-
	<b>(41,532,194)</b>	<b>(7,290,411)</b>

#### Net Balances

Assesment rates debtors	12,054,234	6,097,495
Payments made in advance	3,804	3,458
Accruals	148,602	414,688
Sundry debtors	6,090,912	38,606,086
Suspense accounts	2,112	2,112
<b>Total receivables from non-exchange transactions</b>	<b>18,299,664</b>	<b>45,123,839</b>

Sundry Deposits are in respect of cash deposits made to Caltex for the supply of fuel and uMgungundlovu District Municipality for the supply of water.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018		2017		
5. Receivables from non-exchange transactions (continued)					
5.1 Ageing of receivables from non-exchange transactions					
As at 30 June 2018	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
Assessment rates					
Gross Balances	1,753,530	741,501	1,131,700	18,481,957	22,108,688
Less: Provision for impairment	-	-	-	(10,054,454)	(10,054,454)
Net balances	1,753,530	741,501	1,131,700	8,427,503	12,054,234
Payments made in advance:					
Gross Balances	3,804	-	-	-	3,804
Accruals:					
Gross Balances	148,602	-	-	-	148,602
Sundry Debtors:					
Gross Balances	258,532	-	-	37,310,120	37,568,652
Less: Provision for impairment	-	-	-	(31,477,740)	(31,477,740)
Net balances	258,532	-	-	5,832,380	6,090,912
Suspense Accounts:					
Gross Balances	2,112	-	-	-	2,112
	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
All Receivables					
Gross Balances	2,166,580	741,501	1,131,700	55,792,077	59,831,858
Less: Provision for impairment	-	-	-	(41,532,194)	(41,532,194)
Net balances	2,166,580	741,501	1,131,700	14,259,883	18,299,664

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 5. Receivables from non-exchange transactions (continued)

As at 30 June 2017	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>Assessment rates</b>					
Gross Balances	(1,841,802)	323,062	233,474	14,448,466	13,163,200
Less: Provision for impairment	-	-	-	(7,065,705)	(7,065,705)
<b>Net balances</b>	<b>(1,841,802)</b>	<b>323,062</b>	<b>233,474</b>	<b>7,382,761</b>	<b>6,097,495</b>
<b>Payments made in advance:</b>					
Gross Balances	3,458	-	-	-	3,458
<b>Accruals:</b>					
Gross Balances	414,688	-	-	-	414,688
<b>Sundry deposits:</b>					
Gross Balances	27,084	-	-	-	27,084
<b>Sundry Debtors:</b>					
Gross Balances	38,830,792	-	-	-	38,830,792
Less: Provision for impairment	(224,706)	-	-	-	(224,706)
<b>Net balances</b>	<b>38,606,086</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,606,086</b>
<b>Suspense Accounts:</b>					
Gross Balances	2,112	-	-	-	2,112

As at 30 June Receivables of R7 939 297 were past due but not impaired.

	Current 0 - 30 Days	31 - 60 Days	Past Due 61 - 90 Days	+90 Days	Total
<b>All Receivables</b>					
Gross Balances	37,436,332	323,062	233,474	14,448,466	52,441,334
Less: Provision for impairment	(224,706)	-	-	(7,065,705)	(7,290,411)
<b>Net balances</b>	<b>37,211,626</b>	<b>323,062</b>	<b>233,474</b>	<b>7,382,761</b>	<b>45,150,923</b>



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 5. Receivables from non-exchange transactions (continued)

#### 5.2 Summary of assessment rates debtors by customer classification

##### As at 30 June 2018

	Household	Industrial / Commercial	National and Provincial Government	Other
	R	R	R	R
<i>Current:</i>				
0 - 30 Days	636,177	132,073	95,040	890,240
<i>Past Due:</i>				
31 - 60 Days	309,112	72,790	99,458	260,141
61 - 90 Days	347,024	75,790	407,030	301,856
+90 Days	5,898,765	1,219,168	4,224,396	7,139,626
Subtotal	7,191,078	1,499,821	4,825,924	8,591,863
Less: Provision for Impairment	(4,837,927)	(1,115,695)	-	(4,100,832)
<b>Total Trade Receivables by Customer Classification</b>	<b>2,353,151</b>	<b>384,126</b>	<b>4,825,924</b>	<b>4,491,031</b>

##### As at 30 June 2017

	Household	Industrial / Commercial	National and Provincial Government	Other
	R	R	R	R
<i>Current:</i>				
0 - 30 Days	(200,660)	(24,317)	-	(1,616,825)
<i>Past Due:</i>				
31 - 60 Days	136,162	49,772	4,216	132,912
61 - 90 Days	120,312	41,724	4,216	67,223
+90 Days	4,613,667	1,083,172	3,060,229	5,691,398
Subtotal	4,669,481	1,150,351	3,068,661	4,274,708
Less: Provision for Impairment	(4,130,348)	(977,887)	-	(1,957,470)
<b>Total Trade Receivables by Customer Classification</b>	<b>539,133</b>	<b>172,464</b>	<b>3,068,661</b>	<b>2,317,238</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>5.3 Reconciliation of the provision for impairment</b>		
Balance at beginning of year	7,290,411	6,307,735
Impairment Losses recognised	34,241,783	1,307,673
Impairment Losses reversed	-	-
Amounts written off as uncollectable	-	(324,997)
<b>Balance at end of year</b>	<b>41,532,194</b>	<b>7,290,411</b>

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable.

Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

### 6. VAT receivable

VAT Receivable	5,383,565	2,578,229
----------------	-----------	-----------

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

### 7. Cash and cash equivalents

Current investments	14,022,370	31,292,496
Bank accounts	20,316,322	803,691
Cash and cash equivalents	3,200	3,200
<b>Total bank, cash and cash equivalents</b>	<b>34,341,892</b>	<b>32,099,387</b>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

#### 7.1 Current investment deposits

Call deposits	14,022,370	31,292,496
<b>Total current investment deposits</b>	<b>14,022,370</b>	<b>31,292,496</b>

The Municipality has the following bank accounts:

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018		2017	
7. Cash and cash equivalents (continued)				
Call Deposits:	Bank Statement Balance		Cashbook / Ledger Balance	
	2018	2017	2018	2017
	R	R	R	R
Call Account:-				
First National Bank - Richmond Branch, Richmond -				
Account Number 613 5600 2695:				
Balance at beginning of year	7,090	60,008	7,090	60,008
Balance at end of year	530,991	7,090	530,991	7,090
Housing Operating Account:-				
First National Bank - Richmond Branch, Richmond -				
Account				
Number 621 3447 3280:				
Balance at beginning of year	293,019	275,173	293,019	275,173
Balance at end of year	310,982	293,019	310,982	293,019
Financial Management Grant Account:-				
First National Bank - Richmond Branch, Richmond -				
Account				
Number 622 4181 7537:				
Balance at beginning of year	-	130,162	-	130,162
Balance at end of year	1,900,000	-	1,900,000	-
Library Grant Account:-				
First National Bank - Richmond Branch, Richmond -				
Account				
Number 623 3852 5928:				
Balance at beginning of year	-	316,233	-	316,233
Balance at end of year	-	-	-	-
Municipal Infrastructure Grant Account:-				
First National Bank - Richmond Branch, Richmond -				
Account Number 622 9962 9116:				
Balance at beginning of year	-	279,972	-	279,972
Balance at end of year	1,282	-	1,282	-
Municipal Systems Integration Grant Account:-				
First National Bank - Richmond Branch, Richmond -				
Account Number 622 4181 7727:				
Balance at beginning of year	-	272,540	-	272,540
Balance at end of year	-	-	-	-
Patheni Housing Account:-				
First National Bank - Richmond Branch, Richmond -				
Account Number 621 1717 0407:				
Balance at beginning of year	194,281	182,449	194,281	182,449
Balance at end of year	-	194,281	-	194,281
Siya Phase II Account:-				
First National Bank - Richmond Branch, Richmond -				
Account Number 621 7617 4383:				
Balance at beginning of year	366,171	343,870	366,171	343,870
Balance at end of year	388,843	366,171	388,843	366,171

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand 2018 2017

### 7. Cash and cash equivalents (continued)

	Bank Statement Balance		Cashbook / Ledger Balance	
	2018	2017	2018	2017
	R	R	R	R
<b>Zwelethu Housing Account:-</b>				
First National Bank - Richmond Branch, Richmond -				
Account Number 621 5568 2844:				
Balance at beginning of year	431,935	405,630	431,935	405,630
Balance at end of year	458,591	431,935	458,591	431,935
<b>Call Account:-</b>				
Nedbank - City Branch, Durban - Account Number				
03/7165013946/00028/29/30:				
Balance at beginning of year	30,000,000	45,000,000	30,000,000	45,000,000
Balance at end of year	10,225,415	30,000,000	10,225,415	30,000,000

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4 % to 7 % (2017: 0,50% to 7,86%) per annum.

Deposits attributable to Unspent Conditional Grants	4,288,730	5,376,905
Deposits attributable to Creditors	904,499	11,766,007
Deposits attributable to Current Provisions	-	176,997
Deposits attributable to Rehabilitation of Landfill Site	6,196,053	5,746,769
Deposits attributable to Long-service Awards	2,292,217	1,849,191
Deposits attributable to Retirement Benefits	8,893,849	6,376,626
<b>Total Deposits attributable to Commitments of the Municipality</b>	<b>22,575,348</b>	<b>31,292,495</b>

### 7.2 Bank accounts

Cash in bank	20,316,322	803,691
<b>Total bank accounts</b>	<b>20,316,322</b>	<b>803,691</b>

The Municipality has the following bank accounts:

#### Primary Bank Account

First National Bank - Richmond Branch, Richmond - Account Number 535 6532 2104:

Cash book balance at beginning of year	803,691	466,851
Cash book balance at end of year	20,115,295	803,691

Bank statement balance at beginning of year	803,691	466,851
Bank statement balance at end of year	20,115,295	803,691

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 7. Cash and cash equivalents (continued)

#### 7.3 Cash and cash equivalents

Cash floats and advances	3,200	3,200
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b>3,200</b>	<b>3,200</b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

### 8. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	60,746,733	-	60,746,733	60,746,733	-	60,746,733
Buildings	33,951,613	(12,574,801)	21,376,812	33,951,613	(11,661,363)	22,290,250
Infrastructure	291,476,925	(102,306,410)	189,170,515	272,138,103	(90,418,525)	181,719,578
Community	55,781,047	(18,530,301)	37,250,746	58,711,985	(15,292,264)	43,419,721
Other	23,535,138	(6,714,685)	16,820,453	25,089,140	(9,944,304)	15,144,836
Leased infrastructure	242,307	(240,854)	1,453	242,307	(211,804)	30,503
<b>Total</b>	<b>465,733,763</b>	<b>(140,367,051)</b>	<b>325,366,712</b>	<b>450,879,881</b>	<b>(127,528,260)</b>	<b>323,351,621</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Difference	Additions	Depreciation	Total
Land	60,746,733	-	-	-	60,746,733
Buildings	22,290,250	-	-	(913,438)	21,376,812
Infrastructure	181,719,578	(25,192,495)	21,997,888	(11,887,885)	166,637,086
Community	43,419,721	(3,517,418)	586,480	(3,238,037)	37,250,746
Other	15,144,836	51,030,270	-	(2,532,632)	63,642,474
Leased infrastructure	30,503	(30,503)	-	-	-
	<b>323,351,621</b>	<b>22,289,854</b>	<b>22,584,368</b>	<b>(18,571,992)</b>	<b>349,653,851</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	60,746,733	-	-	-	60,746,733
Buildings	21,322,436	2,581,017	(904,323)	(708,880)	22,290,250
Infrastructure	165,886,563	28,694,246	(11,490,593)	(1,370,638)	181,719,578
Community	45,693,121	2,655,211	(3,061,805)	(1,866,806)	43,419,721
Other	14,263,032	4,424,916	(1,802,144)	(1,740,968)	15,144,836
Leased infrastructure	120,291	-	(89,788)	-	30,503
	<b>308,032,176</b>	<b>38,355,390</b>	<b>(17,348,653)</b>	<b>(5,687,292)</b>	<b>323,351,621</b>

Other movements of Property, Plant and Equipment are in respect of Work-in-Progress completed and transferred to Cost.

The leased Property, Plant and Equipment is secured as set out in Note 18.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 8. Property, plant and equipment (continued)

#### 8.1 Gross carrying amount of property, plant and equipment that is fully depreciated and still in use

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

#### 8.2 Carrying amount of property, plant and equipment retired from active use and not classified as a discontinued operation

No Property, Plant and Equipment were retired from active use and not classified as a Discontinued Operation during the financial year.

#### 8.3 Assets pledged as security

The municipality's obligations under Finance Leases (see Note 17) are secured by the lessors' title to the leased assets. No other assets of the municipality have been pledged as security.

#### 8.4 Impairment of property, plant and equipment

Impairment Losses on Property, Plant and Equipment to the amount of R5 687 289 (2016: R0) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 34.

The amount disclosed for impairment losses on Property, Plant and Equipment does not include individually material amounts of impairment losses. However, cumulative impairment losses for the following significant account balances are included therein:

Impairment losses on Property, Plant and Equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of Property, Plant and Equipment have been physically damaged, stolen or have become redundant and idle.

The recoverable service amount of the relevant assets of Property, Plant and Equipment has been determined on the basis of their fair value less cost to sell. The asset has only been partially impaired as it still in use.

#### 8.5 Change in estimate - useful life of property, plant and equipment reviewed

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:

	-	1,865,949
<b>Total change in estimate for useful life of property, plant and equipment</b>	<b>-</b>	<b>1,865,949</b>

The change in estimates will result in an increase of R1 865 949 in the depreciation expense for the municipality over the forthcoming financial years.

#### 8.6 Land and buildings carried at fair value

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

#### 8.7 Work-in-progress

The municipality has incurred expenditure on capital projects which were not completed at year-end. The details of the carrying amounts of expenditure included in each class of assets are listed below:

Buildings	-	2,039,200
Infrastructure: Roads	-	24,897,945
Community Assets: Recreational Facilities	-	3,032,220
<b>Total Carrying Amounts of Work-in-Progress</b>	<b>-</b>	<b>29,969,365</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 8. Property, plant and equipment (continued)

#### 8.8 Delayed projects

No projects that are currently in progress are experiencing significant delays or were halted.

### 9. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Cultural buildings	57,880	-	57,880	57,880	-	57,880
Municipal jewellery	154,887	-	154,887	154,887	-	154,887
<b>Total</b>	<b>212,767</b>	<b>-</b>	<b>212,767</b>	<b>212,767</b>	<b>-</b>	<b>212,767</b>

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Cultural buildings	57,880	57,880
Municipal jewellery	154,887	154,887
	<b>212,767</b>	<b>212,767</b>

#### Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Cultural buildings	57,880	-	57,880
Municipal jewellery	3,000	151,887	154,887
	<b>60,880</b>	<b>151,887</b>	<b>212,767</b>

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Heritage Assets of the municipality.

#### 9.1 Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting date.

#### 9.2 Heritage Assets measured after recognition using the Revaluation Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

#### 9.3 Work-in-Progress

The municipality had no capital projects for Heritage Assets which were not completed at year-end.

#### 9.4 Delayed Projects

No projects that are currently in progress are experiencing significant delays or were halted.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,635,457	(557,724)	1,077,733	1,730,594	(95,137)	1,635,457

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1,635,457	(557,724)	1,077,733

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	22,303	1,647,420	(34,266)	1,635,457

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

#### 10.1 Significant Intangible Assets

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in GRAP 102 and SIC 32, are the following:

(i) Website Costs incurred during the last two financial years, if applicable, have been expensed and not recognised as Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

#### 10.2 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

#### 10.3 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

#### 10.4 Work-in-Progress

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

#### 10.5 Delayed Projects

No projects that are currently in progress are experiencing significant delays.



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 11. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	7,820,000	-	7,820,000	7,820,000	-	7,820,000

#### Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	7,820,000	7,820,000

#### Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	7,820,000	7,820,000

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	2,210,245	2,584,432
Direct Operating Expenses - incurred to generate rental revenue	2,420,660	2,660,295

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

#### 11.1 Investment Property carried at Fair Value

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

#### 11.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

#### 11.3 Work-in-Progress

The municipality had no capital projects for Investment Property which were not completed at year-end.

#### 11.4 Delayed Projects

No projects that are currently in progress are experiencing significant delays.

#### 11.5 Expenditure incurred to Repair and Maintain

No specific costs included in the amount of Repairs and Maintenance disclosed in Note 35 were incurred by municipality during the reporting period on Investment Property.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Non-current Investments</b>		
<b>Unlisted</b>		
Unlisted Shares	266	266
<b>Total Investments</b>		
All Investments	266	266
<b>Total Non-current Investments</b>	<b>266</b>	<b>266</b>
<b>Council's valuation of Unlisted Investments</b>		
Unlisted Shares	266	266

Unlisted Investments comprise the following:

(i) Unlisted Shares are investments in shares of NCT Forestry Co-operative Limited with no specific maturity dates or interest rates.

## 13. Non-current provisions

### Reconciliation of non-current provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Rehabilitation of Land-fill Sites	5,746,769	667,952	(218,668)	6,196,053

### Reconciliation of non-current provisions - 2017

	Opening Balance	Additions	Change in discount factor	Total
Rehabilitation of Land-fill Sites	5,524,675	461,738	(239,644)	5,746,769

### 13.1 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R6 196 053 (2017: R 5 746 769) to restore the sites at the end of its useful life, estimated to be in 2020. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

## 14. Payables from exchange transactions

Trade creditors	694,542	600,262
Payments received in advanced	573,569	-
Retentions	4,908,432	2,652,291
Other creditors	433,453	8,513,451
Leave accrual	3,427,255	2,953,550
Accruals	591,249	-
Deposits	551,775	-
<b>Total Payables</b>	<b>11,180,275</b>	<b>14,719,554</b>

The average credit period on purchases is 30 (2017: 30) days from the receipt of the invoice as determined by the MFMA.

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 14. Payables from exchange transactions (continued)

The municipality did not default on any payment of its Creditors. No terms for payment have been renegotiated by the municipality.

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

### 15. Payables from non-exchange transactions

Payments received in Advance	2,650,891	835,734
Suspense Accounts	-	210,130
Sundry Deposits	-	29,327
<b>Total Payables</b>	<b>2,650,891</b>	<b>1,075,191</b>

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on any payment of its Creditors. No terms for payment have been renegotiated by the municipality.

### 16. Unspent conditional grants and receipts

#### Conditional grants from government

#### Unspent conditional grants and receipts

Provincial Government Grants	4,240,910	5,329,085
Local Government Grants	47,820	47,820
<b>Total Conditional Grants and Receipts</b>	<b>4,288,730</b>	<b>5,376,905</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 26 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

### 17. Operating lease liabilities

Operating Leases are recognised on the straight-line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

Balance at beginning of year	401,432	367,234
Operating Lease expenses recorded	44,259	44,259
Operating Lease payments effected	(11,066)	(10,061)
<b>Total Operating Lease Liabilities</b>	<b>434,625</b>	<b>401,432</b>

#### 17.1 Leasing Arrangements

##### The Municipality as Lessee:

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 40 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

#### 17.2 Amounts payable under Operating Leases

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>17. Operating lease liabilities (continued)</b>		
<b>Land:</b>		
Up to 1 year	44,259	44,259
2 to 5 years	177,037	177,037
More than 5 years	1,032,716	1,076,974
<b>Total Operating Lease Arrangements</b>	<b>1,254,012</b>	<b>1,298,270</b>

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	(11,066)	10,061
<b>Total Operating Lease Expenses</b>	<b>11,066</b>	<b>(10,061)</b>

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Land

The following restrictions have been imposed on the municipality in terms of the lease agreements on Land:

- (i) The land shall remain the property of the lessor.
- (ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the land.
- (iii) The land shall be returned in good order and condition to the lessor upon termination of the agreement.

### 18. Long-term liabilities

Finance Lease Liabilities	-	34,669
Less: Current Portion transferred to Current Liabilities:	-	(34,669)
<b>Total Long-term Liabilities (Neither past due, nor impaired)</b>	<b>-</b>	<b>-</b>

#### 18.1 Summary of Arrangements

The Finance lease liabilities was paid off in the current year . The effective interest rate on Finance Leases was 48,13% (2017: 48,13%). Capitalised Lease Liabilities are secured over the items of equipment leased.

#### 18.2 Obligations under Finance Lease Liabilities

##### The Municipality as Lessee:

Finance Leases related to Property, Plant and Equipment with lease terms not more than 3 years. The effective interest rate on Finance Leases was 48,13% (2017: 48,13%).

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 18. Long-term liabilities (continued)

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2018 R	2017 R	2018 R	2017 R
<b>Amounts payable under finance leases:</b>				
Within one year	-	38,186	-	38,186
In Second to fifth years, inclusive	-	-	-	-
Over five years	-	-	-	-
	-	38,186	-	38,186
Less: Future Finance Obligations	-	(3,517)	-	(3,517)
	-	<b>34,669</b>	-	<b>34,669</b>
Less: Amounts due for settlement within 12 months (Current Portion)			-	(34,669)
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			-	-

The municipality has finance lease agreements for the following significant classes of assets:

- Office Equipment

Included in these classes are the following significant leases:

(i) Ericson Switchboard and Photocopiers		
- Instalments are payable quarterly in advance	-	38,186
- Average period outstanding		4 months
- Average effective interest rate		48.13%
- Average monthly instalment	-	1,909.28

### 19. Employee benefit liabilities

Post-Retirement Medical Obligation	8,893,849	9,340,788
Long Service Awards	2,292,217	2,026,188
<b>Total employee benefit liabilities</b>	<b>11,186,066</b>	<b>11,366,976</b>
<b>Non-current portion</b>		
Post-Retirement Medical Obligation	8,754,363	9,340,788
Long Service Awards	2,033,983	1,849,191
	<b>10,788,346</b>	<b>11,189,979</b>
<b>Current liability portion</b>		
Post-Retirement Medical Plan Obligation	139,486	-
Long service award	258,234	176,997
	<b>397,720</b>	<b>176,997</b>

#### 19.1 Post-retirement Health Care Benefits Liability

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>19. Employee benefit liabilities (continued)</b>		
Balance at beginning of year	9,482,199	8,863,414
Contributions to Provision	650,280	629,521
Expenditure incurred	(1,238,630)	(10,736)
Balance at end of year	8,893,849	9,482,199
Transfer to Current Provisions	(139,486)	(141,411)
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>8,754,363</b>	<b>9,340,788</b>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by One Pangea, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	69	69
In-service Non-members (Employees)	65	65
Continuation Members (Retirees, widowers and orphans)	5	5
<b>Total Members</b>	<b>139</b>	<b>139</b>

The liability in respect of past service has been estimated as follows:

In-service Members	3,073,959	4,319,912
In-service Non-members	3,373,182	2,841,981
Continuation Members	2,446,708	2,320,307
<b>Total Liability</b>	<b>8,893,849</b>	<b>9,482,200</b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2018 is estimated to be R650 280, whereas the cost for the ensuing year is estimated to be R708 298 (30 June 2017: R654 706 and R650 280 respectively).

### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	10.69 %	9.94 %
Health Care Cost Inflation Rate	8.47 %	8.22 %
Net Effective Discount Rate	2.05 %	1.59 %
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

### Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	9,482,199	8,985,286
Current service costs	650,280	654,706
Interest cost	935,878	856,947
Benefits paid	(141,411)	(132,608)

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 19. Employee benefit liabilities (continued)

Actuarial losses / (gains)	(2,033,097)	(882,131)
	<b>8,893,849</b>	<b>9,482,200</b>

### The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	8,754,363	-
Unfunded Accrued Liability	8,754,363	9,340,788
<b>Total Benefit Liability</b>	<b>8,754,363</b>	<b>-</b>

### The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	650,280	654,706
Interest cost	935,878	856,947
Actuarial losses / (gains)	(2,033,097)	(882,131)
	<b>(446,939)</b>	<b>629,522</b>

### The history of experienced adjustments is as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Present Value of Defined Benefit Obligation	8,893,949	9,482,199	8,985,286	7,828,571	6,947,509
<b>Deficit</b>	<b>10,406,058</b>	<b>10,060,187</b>	<b>8,978,166</b>	<b>7,550,485</b>	<b>6,493,152</b>
Experienced adjustments on Plan Liabilities	1,512,109	577,988	(7,120)	(278,086)	(454,357)

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

#### Increase:

Effect on the aggregate of the current service cost and the interest cost	345,035	415,200
Effect on the defined benefit obligation	1,462,863	2,059,266

#### Decrease:

Effect on the aggregate of the current service cost and the interest cost	(252,858)	(309,500)
Effect on the defined benefit obligation	(2,037,574)	(1,592,324)

The municipality expects to make a contribution of R1 512 109 (2017: R1 586 158) to the Defined Benefit Plans during the next financial year.

### 19.2 Long Service Awards Liability

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>19. Employee benefit liabilities (continued)</b>		
Balance at beginning of year	1,884,777	1,626,815
Contributions to Provision	407,440	257,962
Balance at end of year	2,292,217	1,884,777
Transfer to Current Provisions	(258,234)	(35,586)
<b>Total Long Service Awards Liability</b>	<b>2,033,983</b>	<b>1,849,191</b>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter to 45 years, to employees. The provision is an estimate of the longservice based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Arch Actuarial Consulting, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 137 (2017: 134) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2018 is estimated to be R182 000, whereas the cost for the ensuing year is estimated to be R274 653 (30 June 2017: R249 610 and R182 000 respectively).

### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8.92 %	9.30 %
Cost Inflation Rate	6.57 %	7.15 %
Net Effective Discount Rate	2.21 %	2.01 %
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

### Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	1,884,777	1,681,524
Current service costs	182,000	249,610
Interest cost	173,630	146,363
Benefits paid	(35,586)	(54,709)
Actuarial losses / (gains)	87,396	(138,011)
	<b>2,292,217</b>	<b>1,884,777</b>

### The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	2,292,217	1,884,777
Unfunded Accrued Liability	2,292,217	1,884,777
<b>Total Benefit Liability</b>	<b>2,292,217</b>	<b>1,884,777</b>

### The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	182,000	249,610
Interest cost	173,630	146,363
Actuarial losses / (gains)	87,396	(138,011)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 30)</b>	<b>443,026</b>	<b>257,962</b>

### The history of experienced adjustments is as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Present Value of Defined Benefit Obligation	1,884,777	1,681,524	1,537,519	1,318,993	1,138,669



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>19. Employee benefit liabilities (continued)</b>		
<b>Deficit</b>	<b>1,869,628</b>	<b>1,704,741</b>
Experienced adjustments on Plan Liabilities	(15,149)	23,217
	(10,228)	126,369
		(49,158)
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
<b>Increase:</b>		
Effect on the aggregate of the current service cost and the interest cost	13,181	14,680
Effect on the defined benefit obligation	598,734	173,409
<b>Decrease:</b>		
Effect on the aggregate of the current service cost and the interest cost	(14,680)	(13,181)
Effect on the defined benefit obligation	360,970	(150,658)
The municipality expects to make a contribution of R274 653 (2017: R355 630) to the Defined Benefit Plans during the next financial year.		
<b>20. Rental of facilities and equipment</b>		
Rental Revenue from Amenities	5,930	6,000
Rental Revenue from Buildings	601,900	584,625
Rental Revenue from Halls	195,701	49,746
Rental Revenue from Land	2,210,245	2,584,432
Rental Revenue from Other Facilities	186,770	72,357
<b>Total Rental of Facilities and Equipment</b>	<b>3,200,546</b>	<b>3,297,160</b>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
<b>21. Interest earned</b>		
<b>Property Rates:</b>		
Interest / Penalties Raised	2,407,306	1,452,230
	<b>2,407,306</b>	<b>1,452,230</b>
<b>External Investments:</b>		
Bank Account	110,184	58,407
Investments	2,794,786	3,842,475
	<b>2,904,970</b>	<b>3,900,882</b>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	142,890	94,603
	<b>142,890</b>	<b>94,603</b>
<b>Total Interest Earned</b>	<b>5,455,166</b>	<b>5,447,715</b>
<b>22. Service charges</b>		
Refuse Removal	999,869	487,504
<b>Total Service Charges</b>	<b>999,869</b>	<b>487,504</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>23. Operational revenue</b>		
Building Plan Fees	83,371	40,079
Cemetary fees	89,446	76,062
Insurance claims	-	158,878
Prints	30,908	10,605
Refuse dump fees	-	21,694
Reimbursement of Expenditure	-	130,513
SETA Refunds	-	57,774
Tender documents	113,265	67,595
Town planning fees	-	1,988
Sundry income	6,914	33,947
Cleaning	23,950	-
Clearance	21,143	-
Removal	4,664	-
Cattle grazing	8,087	-
SDL Refund	60,661	-
Payroll commission	-	18,986
Netvendor	-	17,480
<b>Total Operational Revenue</b>	<b>442,409</b>	<b>635,601</b>

## 24. Property rates

	June 2018 R'000	June 2017 R'000	2018	2017
Agricultural Properties	2,367,337	1,088,565	4,065,117	2,034,732
Commercial	233,484	171,822	2,625,951	1,485,803
Residential	456,773	349,024	3,904,069	1,697,773
State	466,377	308,087	2,304,176	4,502,271
Other	198,777	209,565	1,108,143	1,607,495
<b>Total Property Rates</b>	<b>3,722,748</b>	<b>2,127,063</b>	<b>14,007,456</b>	<b>11,328,074</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2017.

Interim valuations are processed annually to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied as follows to property valuations to determine property rates:

- Residential Properties: 0,0072645 c/R (2016/17: 0,0072645 c/R)
- Business Properties: 0,0146662 c/R (2016/17: 0,0146662 c/R)
- Agricultural Properties: 0,0018161 c/R (2016/17: 0,0018161 c/R)

The first R15 000 (2016/17: R15 000) of the valuation of all properties are exempted from the calculation of rates. Furthermore, a rebate of R35 000 (2016/17: R35 000) is allowed on developed residential property.

Rebates and exemptions are granted to pensioners, non-profitable organisations, sporting bodies, religious bodies, etc in terms of the municipality's Rates Policy.

Rates are levied monthly on property owners and are payable at the end of each month. Property owners can request that the full amount for the year be raised in August in which case the amount has to be paid by 28 February. Interest is levied at a rate determined by council on outstanding rates amounts.

## Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

### Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Licences and permits</b>		
Road and Transport	-	595,508
Business Licences	587,123	5,516
Learners Licenses	-	104,440
Other Licenses	128,826	19,997
<b>Total Licences and Permits</b>	<b>715,949</b>	<b>725,461</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 26. Government grants and subsidies

#### Operating grants

Donated assets	16,313	36,442
National Equitable share	59,253,300	55,625,000
Other subsidies	936,293	776,807
	<b>60,205,906</b>	<b>56,438,249</b>

#### Capital grants

National: EPWP	1,443,000	1,277,000
National: FMG	1,900,000	1,825,000
National: MIG	25,354,000	36,057,397
National: Department Minerals and Energy	8,000,000	9,000,000
Provincial: CoGTA	1,252,208	72,300
Provincial: Department Arts and Culture	-	476,218
Provincial: Department Human Settlement	-	1,275,053

**37,949,208 49,982,968**

#### Total Government Grants and Subsidies

**98,155,114 106,421,217**

#### Operational Grants:

##### 26.1 Donated Assets

Department Arts and Culture	16,313	36,443
<b>Total Donated Assets from Government</b>	<b>16,313</b>	<b>36,443</b>

Assets, as described above, were donated to the municipality and recognised as Grants and Subsidies Received during the year.

##### 26.2 National Equitable Share

National Equitable share	59,253,300	55,625,000
--------------------------	------------	------------

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R82,82 (2017: R82,82), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. Indigent residential households receive basic refuse removal and 50 kWh electricity free every month. No funds have been withheld.

#### Conditional Grants:

##### 26.3 National: EPWP Grant

Balance unspent at beginning of year	-	-
Current-year receipts	1,443,000	1,277,000
Conditions met - transferred to Revenue: Operating Expenses	(1,443,000)	(1,277,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Adjustments/Refunds	-	-
	<b>-</b>	<b>-</b>

The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects whereby temporary work opportunities are expanded. No funds have been withheld.

##### 26.4 National: FMG Grant

Balance unspent at beginning of year	-	-
--------------------------------------	---	---

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>26. Government grants and subsidies (continued)</b>		
Current-year receipts	1,900,000	1,825,000
Conditions met - transferred to Revenue: Operating Expenses	(1,900,000)	(1,825,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Adjustments/Refunds	-	-
	<u>-</u>	<u>-</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

### 26.5 National: MIG Funds

Balance unspent at beginning of year	-	2,117,371
Current-year receipts	25,534,000	26,000,000
Conditions met - transferred to Revenue: Operating Expenses	(150,001)	(319,834)
Conditions met - transferred to Revenue: Capital Expenses	(25,383,999)	(35,737,562)
Other Adjustments/Refunds	-	7,940,025
	<u>-</u>	<u>-</u>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, sports fields and community halls as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.

### 26.6 National: Department Minerals and Energy

Balance unspent at beginning of year	-	-
Current-year receipts	8,000,000	9,000,000
Conditions met - transferred to Revenue: Operating Expenses	(8,000,000)	(9,000,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Adjustments/Refunds	-	-
	<u>-</u>	<u>-</u>

Expenses were incurred for the electrification of households in the community. No funds have been withheld.

### 26.7 Provincial: Department Cooperative Government and Trading Affairs (CoGTA)

Balance unspent at beginning of year	3,480,304	3,552,604
Current-year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(1,252,208)	(72,300)
Other Adjustments/Refunds	-	-
	<u>2,228,096</u>	<u>3,480,304</u>

This grant was allocated for the funding of various projects e.g. Retail Market Facility, CBD Stormwater and Street Rehabilitation, Traffic Lights and Drivers' Testing Centre. No funds have been withheld.

### 26.8 Provincial: Department Arts and Culture

Balance unspent at beginning of year	-	297,218
Current-year receipts	-	179,000
Conditions met - transferred to Revenue: Operating Expenses	-	(201,642)
Conditions met - transferred to Revenue: Capital Expenses	-	(274,576)
Other Adjustments/Refunds	-	-
	<u>-</u>	<u>-</u>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 26. Government grants and subsidies (continued)

This grant was allocated to provide access to modern day technology and information resources; and relevant collections of library materials which meet the needs of the communities. No funds have been withheld.

#### 26.9 Provincial: Department Human Settlement

Balance unspent at beginning of year	1,848,781	1,788,343
Current-year receipts	-	1,275,053
Interest allocated	61,673	60,438
Conditions met - transferred to Revenue: Operating Expenses	-	(1,275,053)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Adjustments/Refunds	-	-
	<b>1,910,454</b>	<b>1,848,781</b>

This grant was allocated for the funding of various housing projects to assist the indigent communities. No funds have been withheld.

#### 26.10 Local Government: Umgungundlovu District Municipality

Balance unspent at beginning of year	47,820	-
Current-year receipts	-	60,000
Conditions met - transferred to Revenue: Operating Expenses	-	(12,180)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other Adjustments/Refunds	-	-
	<b>47,820</b>	<b>47,820</b>

This grant was allocated to the municipality as a contribution towards the clearing of vacant land and plots. No funds have been withheld.

#### 26.11 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2017), government grant funding is expected to increase over the forthcoming three financial years.

### 27. Fines

Pound Fees Fines	727	3,098
Traffic Fines	271,165	248,400
Other Fines	-	1,179
<b>Total Fines</b>	<b>271,892</b>	<b>252,677</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 28. Employee related costs

Employee Related Costs - Salaries and Wages	32,828,029	28,584,196
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	4,844,340	4,912,273
Overtime Payments	272,484	297,087
Housing Benefits and Allowances	59,461	54,702
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	1,219,357	1,922,932
Defined Benefit Plan Expense: Current Service Cost	650,280	887,483
<b>Total Employee Related Costs</b>	<b>39,873,951</b>	<b>36,658,673</b>

No advances were made to employees.

#### Remuneration of municipal manager

Annual Remuneration	793,592	960,164
Allowance	126,581	110,323
Contributions to UIF, Medical and Pension Funds	27,702	36,225
	<b>947,875</b>	<b>1,106,712</b>

#### Remuneration of chief finance officer

Annual Remuneration	966,427	949,834
Allowance	132,000	132,000
Contributions to UIF, Medical and Pension Funds	1,884	1,877
	<b>1,100,311</b>	<b>1,083,711</b>

#### Remuneration of the Strategic Manager: Community Services

Annual Remuneration	796,370	781,044
Allowance	192,000	192,000
Contributions to UIF, Medical and Pension Funds	100,182	99,120
	<b>1,088,552</b>	<b>1,072,164</b>

#### Remuneration of the Strategic Manager: Corporate Services

Annual Remuneration	799,505	762,659
Allowance	192,000	192,000
Contributions to UIF, Medical and Pension Funds	97,407	88,342
	<b>1,088,912</b>	<b>1,043,001</b>

#### Remuneration of the Strategic Manager: Technical Services

Annual Remuneration	800,668	813,439
Allowance	286,000	286,000
Contributions to UIF, Medical and Pension Funds	1,884	1,877
	<b>1,088,552</b>	<b>1,101,316</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 29. Remuneration of Councillors

Major	795,913	741,225
Deputy Mayor	326,741	247,298
Speaker	333,213	294,436
Executive Committee Members	276,130	284,222
Councillors	2,930,332	2,398,394
Other Allowances (Cellular Phones, Housing, Transport, etc)	381,005	347,748
<b>Total Councillors' Remuneration</b>	<b>5,043,334</b>	<b>4,313,323</b>

#### Remuneration of Councillors:

##### In-kind Benefits

The Councillor occupying the position of Mayor of the municipality serve in a full-time capacity. The Councillors occupying the positions of Mayor, Deputy Mayor and Speaker are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has two full-time bodyguards and a full-time driver. The Speaker has two full-time bodyguards. The Deputy Mayor has one full-time bodyguard/driver.

### 30. Depreciation and Amortisation

Depreciation: Property, Plant and Equipment	17,658,554	17,348,654
Amortisation: Intangible Assets	557,724	34,266
<b>Total Depreciation and Amortisation</b>	<b>18,216,278</b>	<b>17,382,920</b>

### 31. Impairment losses

#### Impairments

Property, plant and equipment	-	5,687,289
Receivables from exchange and non exchange transactions	34,578,226	1,423,662
	<b>34,578,226</b>	<b>7,110,951</b>

### 32. Finance costs

Finance leases	3,517	37,092
Landfill Provision	178,725	288,404
<b>Total Interest Paid on External Borrowings</b>	<b>182,242</b>	<b>325,496</b>

### 33. Collection Costs

Legal Costs	37,146	116,096
<b>Total Collection Costs</b>	<b>37,146</b>	<b>116,096</b>



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>34. Contracted services</b>		
<b>Outsourced Services</b>		
Burial Services	10,000	-
Business and Advisory	174,262	-
Catering Services	274,623	-
Clearing and Grass Cutting Services	117,100	-
Hygiene Services	6,333	-
Internal Audit	487,096	814,869
Litter Picking and Street Cleaning	29,557	-
Medical Services [Medical Health Services & Support	4,243	-
Professional Staff	1,452	-
Security Services	6,037,670	5,720,277
Other contracted services	-	1,947,415
Valuation Services	-	192,329
<b>Consultants and Professional Services</b>		
Professional fees	9,184,089	430,421
Legal Cost	1,040,299	-
<b>Contractors</b>		
Building	3,035	-
Catering Services	187,666	-
Electrical	3,615,188	-
Maintenance of Buildings and Facilities	81,178	-
Maintenance of Equipment	1,298,266	-
Maintenance of Unspecified Assets	1,563,651	-
Prepaid Electricity Vendors	1,322,425	-
Stage and Sound Crew	151,884	-
Prepaid Water Vendors	42,365	-
<b>Total Contracted Services</b>	<b>25,632,382</b>	<b>9,105,311</b>
<b>35. Grants and Subsidies</b>		
Community Projects	-	1,701,573
Free Basic Services	1,524,423	1,213,355
<b>Total Grants and Subsidies</b>	<b>1,524,423</b>	<b>2,914,928</b>

Community Projects are in respect of community cultural programs, low cost housing and catering & transport cost within the municipality's area of jurisdiction.

Free Basic Services are in respect of assistance to and providing basic service levels to indigent households.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>36. Operational costs</b>		
Advertising	546,094	222,701
Bank charges	91,951	84,782
Bursaries	-	57,286
Chemicals and poison	-	80,730
Cleaning materials	-	156,154
Communication and Public Participation	-	226,539
Consulting and professional fees	-	330,024
Consumables	2,684,180	-
Delivery expenses	180	-
Disaster expenses	-	119,818
Electricity	-	1,271,726
Entertainment	-	42,527
Expenditure incurred from grants	-	12,391,615
External Auditors remuneration	1,481,590	903,471
Fuel and oil	189,607	1,767,023
Hire Charges	5,628	297,700
IDP Review	-	144,582
IT expenses	26,154	-
Insurance	720,540	900,565
Levies	357,987	500,000
Licences	-	15,224
Marketing	-	114,332
Mayoral special programmes	-	11,992
Medical examinations	-	6,316
Other expenses	5,627,171	1,256,390
PMU Unit Operating Expenses	-	316,995
Performance evaluation committee	-	72,050
Postage and telegrams	57,080	94,218
Printing and stationery	357,441	220,467
Protective clothing	61,470	-
Seminars and conferences	-	70,589
Subscriptions and membership fees	8,926	-
Telephone costs	1,052,746	829,813
Title deed search fees	12,344	-
Tourism strategy	-	38,602
Training	-	154,948
Transport and freight	155,975	-
Travelling and subsistence	870,059	935,049
Uniforms and protective clothing	-	356,427
Valuation Roll	-	618,233
Vehicle Licences	-	107,755
Ward committee Management	-	371,915
Water	-	62,134
	<b>14,307,123</b>	<b>25,150,692</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>37. Cash generated from operations</b>		
(Deficit) surplus	(16,821,101)	21,966,101
<b>Adjustments for:</b>		
Depreciation and amortisation	18,216,278	17,382,919
Impairment deficit	34,578,226	7,110,951
Movements in operating lease assets and accruals	33,193	34,198
Movements in retirement benefit assets and liabilities	(180,910)	700,166
Movements in provisions	449,284	222,094
<b>Changes in working capital:</b>		
Inventories	36,272	(36,044)
Receivables from exchange transactions	(34,578,226)	(1,423,662)
Consumer debtors	(797,973)	(53,290)
Other receivables from non-exchange transactions	26,851,259	(22,526,641)
Payables from exchange transactions	(607,348)	1,882,854
VAT	(2,805,336)	1,356,443
Taxes and transfers payable (non exchange)	1,575,700	328,357
Unspent conditional grants and receipts	(1,088,175)	(2,426,452)
	<b>24,861,143</b>	<b>24,517,994</b>
<b>38. Non-cash Investing and Financing</b>		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2017/18 financial year.		
<b>39. Financing Facilities</b>		
The municipality did not have any Financing Facilities available at any time during the two financial years.		
<b>40. Utilisation of long-term liabilities reconciliation</b>		
Long-term Liabilities	-	34,669
Used to finance Property, Plant and Equipment - at cost	-	(34,669)
Cash set aside for the Repayment of Long-term Liabilities	-	-
<b>Cash invested for Repayment of Long-term Liabilities</b>	-	-
Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.		
<b>41. Unauthorised expenditure</b>		
Opening balance	27,220,658	11,316,226
Incurred during the year	-	19,708,709
Approved or condoned	-	(3,804,277)
	<b>27,220,658</b>	<b>27,220,658</b>
<b>42. Fruitless and wasteful expenditure</b>		
Opening balance	-	-
Incurred during the year	-	3,166
Recovered	-	(3,166)
	-	-

## Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

### Notes to the Draft Annual Financial Statements

Figures in Rand

#### 43. Irregular expenditure

Opening balance	286,334	-
Add: Irregular Expenditure - current year	2,200,000	286,334
	<b>2,486,334</b>	<b>286,334</b>

#### Details of irregular expenditure – current year

Department	Date	Successful Tenderer	No of cases	Description of Service	Reason	Amount	Amount Paid
	Year 2017/2018	Ducharme Consulting	1	Preparation of AFS, FAR	Procurement process not followed - Competitive bids	1,247,030	-
	Year 2017/2018	Pure Energy	1	Repair of 6 High Master lights	Procurement process not followed - Competitive bids	4,500,000	2,200,000
						<b>5,747,030</b>	<b>2,200,000</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 44. Commitments for expenditure

#### 44.1 Capital commitments

##### Approved and contracted for

• Infrastructure	34,154,232	11,044,708
• Community	25,841,665	6,291,895
	<b>59,995,897</b>	<b>17,336,603</b>

This expenditure will be financed from government grants.

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

#### 44.2 Lease commitments

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Notes 17 and 18.

#### 44.3 Other commitments

The municipality has entered into a contract with Munsoft for the provision of integrated financial management and internal control systems services for the period 01 August 2016 to 31 May 2019, which will give rise to an approximate charge of R1,8 million in the first year, thereafter escalating with the pricing as approved by National Treasury in the RT25-2016 Transversal Contract.

The municipality has entered into a contract with KSA Security for the provision of security services for 3 years, which will give rise to an annual charge of approximately R5,9 million. The contract terminates on 30 June 2019.

The municipality has entered into a contract with Kuyahambeka Traffic Training & Project Management for the establishment and impounding of stray animals for 3 years, which will give rise to a charge of R980 000. The contract terminates on 30 June 2019.

The municipality has entered into a contract with Mills Fitchet for the provision of valuation services for 6 years, which will give rise to a total charge of R1,7 million. The contract terminates on 30 June 2022.

The municipality has entered into a contract with Vox Telekom for the provision and maintenance of a telephone system for 3 years, which will give rise to an approximate charge of R1,1 million. The contract terminates on 30 June 2019.

### 45. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government - SALGA

Opening balance	-	-
Council subscriptions	500,000	500,000
Amount paid - current year	(500,000)	(500,000)
Amount paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>

#### Audit fees

Opening balance	-	-
Current year audit fee	1,481,590	903,471
Amount paid - current year	(1,481,590)	(903,471)
Amount paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>45. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE, Skills Development Levy and UIF</b>		
Opening balance	-	-
Current year payroll deductions	6,540,609	5,864,946
Amount paid - current year	(6,540,609)	(5,864,946)
Amount paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	-	-
Current year payroll deductions and Council Contributions	7,863,047	7,535,519
Amount paid - current year	(7,863,047)	(7,535,519)
Amount paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>
<b>VAT</b>		
VAT receivable	5,383,565	2,578,229

The net of VAT input payables and VAT output receivables are shown in Note 6. All VAT returns have been submitted by the due date throughout the year.

### Councillors' arrear consumer accounts

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts.

### Councillor's arrear Consumer Accounts

No known matters existed at reporting date.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand

### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements. The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Department	Date	Successful Tenderer	No of cases	Description of Service	Reason	Amount
Technical services	Year 2017/2018	Key truck & Car hire	1	Cylinder and clutch kit for tipper truck: NK5223	Required strip and quote basis	3,074
Technical services	Year 2017/2018	Bell Equipment	1	Prop-Shaft for TLB NK 3503	Sole service provider	4,351
Community	Year 2017/2018	Trophy international	1	Gold,silver and bronze medal.	Required strip and quote basis	5,500
Technical services	Year 2017/2018	Masakhane hardware	1	Building Material	Urgency and short notice	64,385
Corporate services	Year 2017/2018	Digital voice processing	1	Maintanance renewal conference system	Sole Service Provider	5,492
Community	Year 2017/2018	Intercalibration natal	1	2x Speed timing machine for calibration.	Required strip and quote basis	3,876
Community	Year 2017/2018	Key Truck and Car PMB	1	Repair and service of Isuzu Nk 4457	Still under warranty	5,847
Finance	Year 2017/2018	SAGE VIP	1	Addition of employees on VIP system	Single service provider	25,340
Finance	Year 2017/2018	SAGE VIP	1	Consultation for MSCOA	Single service provider	17,442
Community	Year 2017/2018	Richmond Taxi Association	1	Transportation	Single service provider	13,600
Corporate services	Year 2017/2018	Express employment	1	Varification for 2 candidates	Urgency and short notice	3,231
Technical services	Year 2017/2018	Barloworld Equipment	1	Repairs on Excvator 320D on right hand side	Single service provider	38,507
Technical services	Year 2017/2018	Kinsey Steel Industries	1	Welding on Grader: NK 1730	Required strip and quote basis	5,928
Technical services	Year 2017/2018	Man Automotive	1	Repair of radiator cap on NK7750	Still under warranty	8,171
Community	Year 2017/2018	Lexis nexis	1	Road TRAT/TRANS 5 vols 2md & road delivery	Sole Service Provider	3,463
Community	Year 2017/2018	Tholalwazi trading	1	Catering for SALGA games	Urgency and short notice	7,300
Community	Year 2017/2018	Germina trading	1	Catering for SALGA games	Urgency and short notice	3,400

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand

### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Department	Date	Successful Tenderer	No of cases	Description of Service	Reason	Amount
Community	Year 2017/2018	Airbrake services	1	Service fo Chevrolet Cruse NK 6274	Required strip and quote basis	15,483
Community	Year 2017/2018	Mchunu repairs	1	Service fo Chevrolet Cruse NK 4957	Required strip and quote basis	15,695
Community	Year 2017/2018	Mchunu repairs	1	Service of NK4528	Required strip and quote basis	15,926
Technical services	Year 2017/2018	Badcock International	1	Repair on fuel and pressure switch grader NK7957	Required strip and quote basis	11,977
Technical services	Year 2017/2018	Key truck & car	1	Repair and fit string	Required strip and quote basis	8,838
Technical services	Year 2017/2018	NMI Durban South	1	Service for Fuso truck NK4477	Still under warranty	4,410
Corporate services	Year 2017/2018	Msimed Medical	1	Medical check-up for Municipal staff.	Urgency and short notice	2,250
Corporate services	Year 2017/2018	Tash security system	1	Aircon shutdown relays, access control over ride	Urgency and short notice	10,500
Finance	Year 2017/2018	SAGE VIP	1	Premier existing consultation	Single service provider	24,885
Finance	Year 2017/2018	Munsoft finacial system	1	Caseware licencing	Single service provider	15,738
Technical services	Year 2017/2018	Barloworld Equipment	1	Service on CAT 320 Excavator	Still under warranty	28,776
Technical services	Year 2017/2018	Mchunu repairs		Repairs to hydraulics	Required strip and quote basis	6,244
Technical services	Year 2017/2018	Mchunu repairs		Service of NK1475	Still under warranty	14,254
Community	Year 2017/2018	Mchunu repairs		Repairs to NK5360	Required strip and quote basis	11,473
Technical services	Year 2017/2018	Summit hose		Repairs to hydraulic cylinder	Required strip and quote basis	21,603
Technical services	Year 2017/2018	SG Tractor		Repair to TLB	Required strip and quote basis	22,711
Technical services	Year 2017/2018	Key Truck		Service kits	Sole Service Provider	3,048
Technical services	Year 2017/2018	Key Truck		Service kits	Sole Service Provider	3,048
Technical services	Year 2017/2018	Barloworld Equipment		Repair to Excavator	Sole Service Provider	38,719
Finance	Year 2017/2018	Sage VIP		Premier existing consultation	Sole Service Provider	8,949
Finance	Year 2017/2018	Sage VIP		On site MSCOA trading	Sole Service Provider	9,576
Technical services	Year 2017/2018	Key Truck		Repair to NK3522	Sole Service Provider	10,380
Finance	Year 2017/2018	Sage VIP		Premier existing consultation	Sole Service Provider	7,260
	Year 2017/2018	Richmond Fire Protection Association		Membership - Fire protection	Emergency	53,755
						<b>584,405</b>



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 46. Financial instruments disclosure

#### 46.1 Classification

##### FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

##### Financial Assets at Amortised Cost:

##### Non-current Investments

Unlisted Shares	266	266
-----------------	-----	-----

##### Receivables from Exchange Transactions

Refuse	240,451	195,084
--------	---------	---------

Other Debtors	1,140,813	388,207
---------------	-----------	---------

##### Receivables from Non-exchange Transactions

Assessment Rates Debtors	12,054,233	6,097,495
--------------------------	------------	-----------

Payments made in Advance	-	3,458
--------------------------	---	-------

Accruals	(1,361,523)	414,688
----------	-------------	---------

Sundry Debtors	38,859,988	38,633,170
----------------	------------	------------

Suspense Accounts	-	2,112
-------------------	---	-------

##### Cash and Cash Equivalents

Call Deposits	14,022,370	31,292,496
---------------	------------	------------

Bank balances	20,316,322	803,691
---------------	------------	---------

##### Financial assets at Fair Value

##### Cash and Cash Equivalents

Cash Floats and Advances	3,200	3,200
--------------------------	-------	-------

<b>Total Financial Assets</b>	<b>85,276,120</b>	<b>77,833,867</b>
-------------------------------	-------------------	-------------------

##### FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

##### Financial Liabilities at Amortised Cost:

##### Long-term Liabilities

##### Payables from Exchange Transactions

Trade Creditors	8,072,600	600,266
-----------------	-----------	---------

Retentions	4,908,432	2,652,291
------------	-----------	-----------

Other Creditors	-	8,513,451
-----------------	---	-----------

##### Payables from Non-exchange Transactions

Sundry Deposits	-	29,327
-----------------	---	--------

Suspense Accounts	-	210,130
-------------------	---	---------

##### Current Portion of Long-term Liabilities

Finance Lease Liabilities	-	34,669
---------------------------	---	--------

<b>Total Financial Liabilities</b>	<b>12,981,032</b>	<b>12,040,134</b>
------------------------------------	-------------------	-------------------

#### 46.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

##### Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

##### Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand

2018

2017

### 46. Financial instruments disclosure (continued)

#### Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

#### Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

#### Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2017, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the municipality have been reclassified during the year.

#### Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

##### Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

##### Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

##### Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 46. Financial instruments disclosure (continued)

30 June 2018	Level 1 R	Level 2 R	Level 3 R	Total
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Cash and cash equivalents	-	3,200	-	3,200
<b>Total Financial Assets</b>	-	<b>3,200</b>	-	<b>3,200</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
<b>Total Financial Liabilities</b>	-	-	-	-
<b>Total Financial Instruments</b>	-	3,200	-	3,200
<b>30 June 2017</b>	<b>Level 1 R</b>	<b>Level 2 R</b>	<b>Level 3 R</b>	<b>Total</b>
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Cash and cash equivalents	-	3,200	-	3,200
<b>Total Financial Assets</b>	-	<b>3,200</b>	-	<b>3,200</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
<b>Total Financial Liabilities</b>	-	-	-	-
<b>Total Financial Instruments</b>	-	3,200	-	3,200

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand

2018

2017

### 47. Multi-employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible employees, who belong to different pension schemes. Councillors have an option to belong to the Pension Fund for Municipal Councillors. Employees belong to a variety of approved Pension and Provident Funds as described below. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes. All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions.

Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R5 008 286 2017: R3 154 067 represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

### DEFINED BENEFIT SCHEMES

#### Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2017 by ARGEN Actuarial Solutions.

The interim actuarial valuation performed as at 31 March 2017 revealed that the fund had a shortfall of R190m (31 March 2016: shortfall of R244m), with a funding level of 95,3% (31 March 2016: 93,8%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (38,37%) is expected to eradicate the shortfall in the fund by 31 March 2020.

#### Super Annuation:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2016 by ARGEN Actuarial Solutions. The last statutory actuarial valuation was performed as at 31 March 2017.

The statutory actuarial valuation performed as at 31 March 2017 revealed that the fund was 100% funded with a funding level of 100% (Statutory 31 March 2015: 96,1%). Members contributed at 9.25% of pensionable salaries during the valuation period. Local authorities contributed at 21.63% of pensionable salaries.

A surcharge of 9.5% of pensionable salaries has been paid from 1 April 2012 in terms of a "Scheme to Eliminate Deficiency" that was submitted to the FSB by the fund in terms of Section 18 of the Act. Although the prior periods deficits have been eliminated, the Trustees have agreed that the surcharge should continue to be paid to the Fund in order to build up Solvency Reserves in the Fund.

#### Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2017 by ARGEN Actuarial Solutions. The last statutory actuarial valuation was performed as at 31 March 2015.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

The interim actuarial valuation performed as at 31 March 2017 revealed that the market value of the fund was R3 486m (31 March 2016: R3 016,9), with a funding level of 103,5% (Interim 31 March 2017: 105,3%). The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in financial sound position as at 31 March 2017.

None of the above mentioned plans are State Plans.

### 48. Related parties

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

#### 48.1 Interest of Related Parties

No Related Party Interests have been identified/declared for the two financial years under review.

#### 48.2 Services rendered to Related Parties

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

For the year ended 30 June 2018	Rates charges	Service Charges	Sundry Charges	Oustanding balances
Councillors	-	-	-	-
Municipal Manager and Section 57 Personnel	3,996	589	-	-
<b>Total Services</b>	<b>3,996</b>	<b>589</b>	-	-

  

For the year ended 30 June 2017	Rates charges	Service Charges	Sundry Charges	Oustanding balances
Councillors	2,150	549	-	-
Municipal Manager and Section 57 Personnel	2,877	549	-	-
<b>Total Services</b>	<b>5,027</b>	<b>1,098</b>	-	-

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

#### 48.3 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. All Loans granted prior to this date have been fully repaid.

#### 48.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 29 and 30

#### 48.5 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
<b>49. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>49.1 Guarantees</b>		
(i) First National Bank Council provided letters of suretyship to First National Bank to assist staff members to obtain home loans. These sureties were provided prior to the introduction of the Municipal Finance Management Act. The sureties ensure that the municipality complies with section 164(2) of the Municipal Finance Act. These amounts have been secured against the staff members' pension/provident funds by means of written agreements which are lodged with the Kwa-Zulu Natal Joint Municipal Pension/Provident Fund. Copies are maintained on the staff members' personal files.	-	12,000
<b>49.2 Court Proceedings</b>		
(i) Claim for Remuneration: Mr Gumede, a former employee of the municipality, is suing the municipality for alleged remuneration owed to him. The municipality has filed its Plea, whilst the plaintiff has filed an exception to that Plea. Normal legal proceedings will start once the plaintiff has set down the exception to be argued in Court. The outcome of the legal proceedings is still unknown and is lying dormant with no further actions.	-	70,000
(ii) Claim for Land: The municipality is claiming back a piece of land which was bought by Umona Phagi for the purpose of developing low and middle income housing. Umona Phagi failed to develop the property within the specific period of time agreed upon and the municipality cancelled the agreement and is claiming back the land in terms of the contract entered into. Negotiations to settle out of court have failed and the municipality is compelled to go to Court to seek the appropriate order. Subsequently, Umona Phangi went into liquidation and the municipality is negotiating an offer to purchase the property back from SARS, which SARS did not accept and taken over the property themselves. The municipality is not pursuing the matter any further.	-	-
(iii) Breach of Contract: The municipality has lodged a claim against Masefane Trading in respect of the unlawful breach of contract by Masefane Trading. The matter is undefended to date and Affidavits are being prepared in support of application for default judgement. The outcome of the legal processes is unknown at this stage. The Contingent Liability is in respect of expected legal costs incurred herein. Also refer to Note 54.1 (i).	-	50,000
(iv) Defamation of Character: Z.J.Funeka claims damages against the Municipality based on defamation of character. The action is based on vicarious liability. The matter is lying dormant as Plaintiff is not taking action to prosecute the matter. The outcome of the legal proceedings is still unknown.	1,300,000	1,300,000
	<b>1,300,000</b>	<b>1,432,000</b>
<b>Contingent assets</b>		
<b>49.3 Court Proceedings</b>		
(i) Breach of Contract: The municipality has lodged a claim against Masefane Trading in respect of the unlawful breach of contract by Masefane Trading. The matter is undefended to date and Affidavits are being prepared in support of application for default judgement. The outcome of the legal processes is unknown at this stage. The municipality needs to provide the Attorneys with the documentary proof of the estimated damages to be suffered for purposes of preparing the Damages Affidavit which will support the Application for Default Judgment.	4,000,000	4,000,000

## 50. In-kind donations and assistance

The municipality did not receive in-kind donations and assistance during the year.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 51. Private public partnership

The municipality was not a party to any Private Public Partnerships during the year under review.

### 52. Events after the reporting date

The CFO of the municipality was suspended with pay while investigations continue.

### 53. Going concern assessment

Management considered the following matters relating to the Going Concern:

(i) On 30 May 2017 the Council adopted the 2017/18 to 2019/20 Budget. This three-year Medium Term Revenue and Expenditure Framework(MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.

(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

### 54. Risk management

#### 54.1 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2016.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

#### Gearing ratio

The gearing ratio at the year-end was as follows:

Debt	-	34,669
Cash and Cash Equivalents	34,341,892	32,099,387
Net Debt	34,341,892	32,134,056
Equity	357,926,613	374,747,710
Net debt to equity ratio	(9.59)%	(8.57)%

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 54. Risk management (continued)

#### 54.2 Financial risk management objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

#### 54.3 Significant risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

##### Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 50.8 to the Annual Financial Statements.

##### Credit risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

##### Market risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.



# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 54. Risk management (continued)

#### 54.4 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 50.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

##### 54.4.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

##### 54.4.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

#### Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

The short and long-term financial instruments at year-end with variable interest rates are set out in Note 50.8 below.

- Surplus for the year ended 30 June 2017 would have increased / decreased by R399 145 (30 June 2016: R473 964). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

Finance Lease Liabilities:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2017 would have decreased / increased by R6 037 (30 June 2016: decreased / increased by R6 300).

This is mainly attributable to the municipality's exposure to interest rates on its variable rate borrowings; and

#### 54.5 Credit Risk Management

# Richmond Local Municipality

(Registration number KZN 227)

Draft Annual Financial Statements for the year ended 30 June 2018

## Notes to the Draft Annual Financial Statements

Figures in Rand

2018

2017

### 54. Risk management (continued)

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

#### Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

#### Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates and waste services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling recovery for the non-payment of any of the individual debts, in terms of section 102 of the MSA;

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists based on the payment history of the parties.